

## **How Tax Friendly is Your City?**

New Mexico's 10-largest Cities Ranked by Tax Burden  
August 13, 2007

By Paul J. Gessing

“There is no such thing as a good tax.” – Winston Churchill

### **Introduction: Taxes and Economic Growth**

People have many reasons for moving to a new place. For some the motivation is employment; others are drawn by good weather and cultural amenities. Some prefer large cities with an airport while others would rather live out in the countryside or in a small town.

Just as the reasons for moving to any new place vary, so to do the reasons for the migration to New Mexico that has taken place over time. In fact, according to press reports, New Mexico recently passed the 2 million person population mark.<sup>1</sup>

Historically, however, the state has drawn tuberculosis patients and other “health care refugees” in search of a drier, healthier climate. Families of military members have been assigned to one of our many military installations and subsequently put down roots. Retirees looking for a pleasant climate, outdoor recreation, and a low cost of living are yet another major group of “new” New Mexicans.

Taxes may not leap to mind as the most important relocation factor for many people, but once the data are examined, it is plain to see that tax policy cannot be underestimated. After all, lots of places have good weather and cultural amenities, but taxes represent a cost of doing business and, in determining where to locate, employers will invariably choose to locate where taxes are low. This dynamic creates greater employment opportunity in low-tax states, thus leading to population shifts over time.

Research by Ohio University economist Richard Vedder provides the data for this reasoning. As Vedder points out, “During the 1990s, 2,845,700 Americans moved into the 10 states with the overall lowest state and local tax burden from other states. Meanwhile, there was a net out-migration of 2,151,300 from the 10 states with the highest tax burdens.”<sup>2</sup>

It is not surprising then, considering the state’s historically un-free economic climate (see the footnoted Economic Freedom Index of North America) that New Mexico has lagged behind

---

<sup>1</sup> Associated Press, “New Mexico Population Quietly Rolls Past 2 million,” *Santa Fe New Mexican*, July 1, 2007, <http://www.freewmexican.com/news/64142.html>.

<sup>2</sup> Richard Vedder, “Millions flee high-tax states in little-discussed population shift,” *Budget & Tax News*, December 1, 2005, <http://www.heartland.org/Article.cfm?artId=18063>.

its neighbors in economic and population growth.<sup>3</sup> In fact, the state's population only recently surpassed two million while Arizona and Colorado, two neighboring states but with histories of free-market policies, have populations in excess of 6.2 million and 4.7 million respectively.<sup>4</sup>

While Arizona and Colorado population growth has been far faster than here in New Mexico, so to has income growth. In fact, the average Coloradoan earns more than \$39,000 annually while the average Arizonan earns approximately \$31,500. The average New Mexican earns less than \$30,000 annually.<sup>5</sup>

### **Tax Burdens Vary Within New Mexico**

Just as tax burdens vary by state, so to do they vary within New Mexico. And, while location and cultural factors tend to matter more when the choice is between cities within a state than when choosing among states, over time, local tax burdens can have a significant impact on cities' abilities to generate economic growth and attract residents.

New Mexico families are faced with three primary taxes: gross receipts, income, and property. Severance taxes have become an increasingly important source of revenue in recent years and they are ultimately passed on to consumers via higher costs at the pump or in the hundreds of products we buy, but like income taxes, severance taxes are collected statewide and are not included in this study.

Thus, it is important to note that this study does not account for New Mexico's entire tax burden; rather it focuses on those taxes that vary from city to city, namely the gross receipts tax and the property tax.

Instead of analyzing every area in the state (there are more than 120 different gross receipts rates applied by the various taxing jurisdictions), this study will focus instead on the relative tax-friendliness of New Mexico's 10 largest cities.

The 10-largest cities in New Mexico all have more than 25,000 people and, when taken together, they include approximately one-half of New Mexico's total population. The cities and their populations – based on 2005 Census data – are listed in the chart below. Note that for purposes of tax analysis, Rio Rancho is split up into two "cities" because the Sandoval and Bernalillo County portions have enacted very different tax policies.

---

<sup>3</sup> Amela Karabegovic and Fred McMahon, Economic Freedom of North America 2006, The Fraser Institute and the National Center for Policy Analysis, <http://www.fraserinstitute.ca/admin/books/files/EFNA2006.pdf>.

<sup>4</sup> Population information available at [www.census.gov](http://www.census.gov).

<sup>5</sup> Bureau of Business and Economic Research, "Per Capita Personal Income by State," <http://www.unm.edu/~bber/econ/us-pci.htm>.

**Table 1.**

| <b>City</b>                | <b>Population</b> |
|----------------------------|-------------------|
| Albuquerque                | 494,236           |
| Las Cruces                 | 82,671            |
| Santa Fe                   | 70,631            |
| Rio Rancho<br>(Sandoval)   | 66,599            |
| Rio Rancho<br>(Bernalillo) | Same as<br>above  |
| Roswell                    | 45,199            |
| Farmington                 | 43,161            |
| Alamogordo                 | 36,245            |
| Clovis                     | 33,357            |
| Hobbs                      | 29,006            |
| Carlsbad                   | 25,300            |
| <b>Total</b>               | <b>926,405</b>    |

### **Property Taxes**

By and large, property tax revenues and rates are controlled at the local level. Thus, despite certain limits placed on millage rates and uniformity of collection practices, property tax burdens can vary dramatically statewide. Property taxes do form a relatively small portion of overall state and local tax collections (about 9 percent), especially when compared with other states, but they are relied on quite heavily by local governments.<sup>6</sup>

Outside of the formula for calculating property tax burdens, the most important thing to know about them is that in 2000, the Legislature passed a law to protect homeowners from spikes in the real estate market. It limits the annual increase in the assessed value of most homes to 3 percent. The law also requires the tax assessor to revise the assessed valuation when a property is sold. The sales price becomes the new assessed value, so long as it was at the market rate.<sup>7</sup>

Within the specific limits prescribed above New Mexico property taxes are relatively simple. All property is taxed at 1/3<sup>rd</sup> of assessed value with a \$2,000 exemption. That amount, known as net taxable value, is then multiplied by the millage rate charged by the local government. Table 2 is an example, using a property valued at \$120,000, taken from the Bernalillo County Treasurer's office website (using 2004 millage rates).<sup>8</sup> The methodology outlined below applies to all areas of the state.

<sup>6</sup> US Census Bureau, "State and Local Government Finances by Level of Government and by State: 2004-05," [http://www.census.gov/govs/estimate/0532nmsl\\_1.html](http://www.census.gov/govs/estimate/0532nmsl_1.html).

<sup>7</sup> Wendy Brown, *The Santa Fe New Mexican*, "Property Tax Envy," October 6, 2006, <http://www.freewmexican.com/news/50047.html>.

<sup>8</sup> Bernalillo County Treasurer's Office, "Property Tax Calculation," <http://www.bernco.gov/live/departments.asp?dept=2319&submenuid=2865>.

**Table 2.**

|                                                                                           |                   |
|-------------------------------------------------------------------------------------------|-------------------|
| Full value of property                                                                    | \$120,000.00      |
| Taxable Value (1/3 of full value)                                                         | \$40,000          |
| Head of Household Exemption<br>(normally \$2000)(subtract)                                | -\$2,000          |
| Veterans-Exemption (normally<br>\$3500)(subtract)                                         | -\$0.00           |
| Net Taxable Value (NTV)                                                                   | \$38,000          |
| Multiply NTV by total Mill Levy<br>/ Tax Rate (38.880 residential rate<br>in Albuquerque) | x 38.880          |
| Divide by \$1,000 (Mill Levy /<br>Tax Rate = dollars per \$1,000<br>valuation)            | ÷1,000            |
| <b>Full Year Property Taxes Due</b>                                                       | <b>\$1,477.44</b> |

While property taxes are collected in a similar fashion statewide, rates vary dramatically from city to city. As the chart below clearly shows, a home of the same value can be taxed at very different rates depending on the location of the property.

**Table 3.**

| City                    | Residential Property Tax Rates |
|-------------------------|--------------------------------|
| Santa Fe                | 17.69                          |
| Carlsbad                | 21.478                         |
| Farmington              | 23.31                          |
| Clovis                  | 25.336                         |
| Rio Rancho (Sandoval)   | 26.23                          |
| Las Cruces              | 26.985                         |
| Alamogordo              | 27.086                         |
| Hobbs                   | 27.271                         |
| Rio Rancho (Bernalillo) | 29.257                         |
| Roswell                 | 29.501                         |
| Albuquerque             | 38.116                         |

If taken at face value, the chart above might lead some to believe that with its lowest-in-the-state property tax rates Santa Fe is a tax haven. The city's Chamber of Commerce even makes

this point saying that Santa Fe has the “lowest property tax rate in the state.”<sup>9</sup> Unfortunately for Santa Fe, while millage rates are important, property values are ultimately the key to determining local property tax burdens. As shown in Table 4, with its high median property values, Santa Fe generates more revenue from a lower tax rate than any other place in the state.

**Table 4.**

| <b>City</b>             | <b>Median Property Valuation</b> | <b>Millage Rates</b> | <b>Property Tax Bill on Median Home</b> |
|-------------------------|----------------------------------|----------------------|-----------------------------------------|
| Albuquerque             | \$184,200                        | 38.116               | \$2,264                                 |
| Rio Rancho (Bernalillo) | \$184,200                        | 29.257               | \$1,738                                 |
| Santa Fe                | \$269,853*                       | 17.69                | \$1,559                                 |
| Rio Rancho (Sandoval)   | \$184,200                        | 26.23                | \$1,558                                 |
| Las Cruces              | \$156,275                        | 26.985               | \$1,352                                 |
| Farmington              | \$172,300                        | 23.31                | \$1,292                                 |
| Alamogordo              | \$88,300                         | 27.086               | \$743                                   |
| Roswell                 | \$70,400                         | 29.501               | \$633                                   |
| Clovis                  | \$75,500                         | 25.336               | \$587                                   |
| Hobbs                   | \$59,900                         | 27.271               | \$490                                   |
| Carlsbad                | \$72,000                         | 21.478               | \$473                                   |

Data available at [www.city-data.com](http://www.city-data.com) or through local board of realtors.

Politicians in some tax jurisdictions with heavy property tax burdens will undoubtedly blame their cities’ high property values for their heavy property tax burdens, but that does not take the onus off these higher-tax jurisdictions. They could further reduce millage rates to reduce their burdens.

### **Gross Receipts Taxes**

The gross receipts tax generates 47 percent of state and local tax revenues and also accounts for much of what local governments spend.<sup>10</sup> The state itself charges a rate of 5 percent and local jurisdictions can add to that rate up to a point. The lowest gross receipts tax rate in the state of 5.125 percent, which can be found in unincorporated areas of Catron County, is more than 50 percent lower than the highest rate in New Mexico (7.875 percent) which can be found in the city of Santa Fe and a handful of other cities around the state.<sup>11</sup>

<sup>9</sup> Santa Fe Chamber of Commerce, “Community Information,” <http://www.santafechamber.com/community/demographics.asp>.

<sup>10</sup> US Census Bureau, “State and Local Government Finances by Level of Government and by State: 2004-05,” [http://www.census.gov/govs/estimate/0532nmsl\\_1.html](http://www.census.gov/govs/estimate/0532nmsl_1.html).

<sup>11</sup> Data taken from “Gross Receipts Tax Schedule July 1, 2007-December 31, 2007,” State of New Mexico Taxation and Revenue Department, <http://www.tax.state.nm.us/pubs/GRTRateScheduleJuly2007.pdf>.

\*This data, originally from the Santa Fe Board of Realtors, was found to be inaccurate. This version is up-to-date.

The following table ranks the 10 most populated cities in the state based on gross receipts tax rates found within their borders. It is worth noting that Hobbs and the area of Rio Rancho located in Sandoval County (both of which share the lowest gross receipts tax rate) levy the tax at a rate that is 14 percent lower than Santa Fe, the city with the highest gross receipts tax rate.

**Table 5.**

| <b>City</b>                | <b>GRT Rates*</b> | <b>Per Capita Personal Income</b> | <b>Average GRT Bill</b><br>(adjusted for local per capita income) |
|----------------------------|-------------------|-----------------------------------|-------------------------------------------------------------------|
| Santa Fe                   | 7.8750%           | \$37,934                          | \$2,973                                                           |
| Clovis                     | 7.4375%           | \$27,115                          | \$2,007                                                           |
| Alamogordo                 | 7.2500%           | \$21,448                          | \$1,548                                                           |
| Las Cruces                 | 7.1250%           | \$23,070                          | \$1,636                                                           |
| Rio Rancho<br>(Bernalillo) | 7.1250%           | \$30,884                          | \$2,190                                                           |
| Roswell                    | 7.0000%           | \$24,880                          | \$1,733                                                           |
| Farmington                 | 7.0000%           | \$24,260                          | \$1,690                                                           |
| Albuquerque                | 6.8750%           | \$30,884                          | \$2,113                                                           |
| Carlsbad                   | 6.8125%           | \$29,132                          | \$1,975                                                           |
| Rio Rancho<br>(Sandoval)   | 6.6875%           | \$30,884                          | \$2,056                                                           |
| Hobbs                      | 6.6875%           | \$27,636                          | \$1,839                                                           |

\*GRT Rates include 5% base rate applied by New Mexico.

Using the tax rates listed for each of the cities above along with data on family expenditures from the Bureau of Labor Statistics (BLS) that factors in per capita personal incomes by city (listed above), the author calculated the average gross receipts tax burden for a New Mexico family unit (as defined by BLS).<sup>12</sup> The calculations found in the table exclude expenditures on shelter and food, neither of which is taxable under New Mexico's gross receipts tax system.

The family gross receipts tax burden number is simply a calculation of the average amount of gross receipts tax paid by those in each city based on New Mexico's average income level. This number is more varies greatly based on income levels (since people spend more when they make more). Low rates, not low incomes, are of course the key to tax friendliness.

It is worth pointing out that despite paying relatively low gross receipts tax rates by New Mexico standards, both cities charge a higher gross receipts rate than the average *sales tax*

<sup>12</sup> Personal Income Data is available at the Bureau of Economic Analysis <http://www.bea.gov/>, Regional Economic Information System, Table CA1-3, April 2007. Bureau of Labor Statistics' consumer expenditure data can be found here: <http://www.bls.gov/cex/csxann05.pdf>.

rate in most states.<sup>13</sup> Because New Mexico’s gross receipts tax includes services and some business inputs and not just business-to-consumer sales, this makes New Mexico’s gross receipts tax extremely onerous and economically harmful.<sup>14</sup>

### Local Tax Burden Comparisons

The combined effects of the property and gross receipts tax provides the best picture of the various tax burdens levied by New Mexico’s cities. There are, of course, dozens of other taxes such as income taxes, severance taxes, and cigarette taxes (just to name a few) that could be factored in to calculate a median or average tax burden. The point is that the gross receipts and property tax burdens comprise a majority of New Mexicans’ tax burdens and they vary significantly by location.

By simply adding together the total gross receipts tax and property tax burdens we can calculate the total location-dependent tax burden. As the table below shows, residents of Hobbs and Carlsbad pay about half as much in locally-dependent taxes as the average family would pay in Santa Fe.

**Table 6.**

| City                       | Median Property<br>Tax Payments + | Per Capita Gross<br>Receipts Tax<br>Payments = | Total Location-<br>Dependent Tax<br>Burden |
|----------------------------|-----------------------------------|------------------------------------------------|--------------------------------------------|
| Alamogordo                 | \$743                             | \$1,555                                        | \$2,298                                    |
| Hobbs                      | \$490                             | \$1,848                                        | \$2,338                                    |
| Roswell                    | \$633                             | \$1,742                                        | \$2,375                                    |
| Carlsbad                   | \$473                             | \$1,985                                        | \$2,458                                    |
| Clovis                     | \$587                             | \$2,017                                        | \$2,604                                    |
| Farmington                 | \$1,292                           | \$1,698                                        | \$2,990                                    |
| Las Cruces                 | \$1,352                           | \$1,644                                        | \$2,996                                    |
| Rio Rancho<br>(Sandoval)   | \$1,558                           | \$2,065                                        | \$3,623                                    |
| Rio Rancho<br>(Bernalillo) | \$1,738                           | \$2,200                                        | \$3,938                                    |
| Albuquerque                | \$2,264                           | \$2,123                                        | \$4,387                                    |
| Santa Fe                   | \$1,559                           | \$2,987                                        | \$4,543                                    |

While the overall tax burden number is extremely important as an indicator of what the residents of various cities must pay, what impacts taxpayers the most is how much they pay in

<sup>13</sup> The Sales Tax Clearinghouse, Combined Average City and County Sales Tax Rates, <http://thestc.com/strates.stm>.

<sup>14</sup> Paul Gessing and Harry Messenheimer, PhD, “New Mexico’s Gross Receipts Tax: A Warning to Other States,” Rio Grande Foundation, February 2, 2007, [http://www.riograndefoundation.org/papers/combined\\_grt.pdf](http://www.riograndefoundation.org/papers/combined_grt.pdf).

taxes relative to their incomes. That is why, when ranking New Mexico’s 10 largest cities based on their tax burden, the Rio Grande Foundation’s analysis points to gross receipts and property taxes as a percent of income as the most important factors in determining families’ tax burdens.

Thus, local taxes as a percentage of overall income is the ultimate arbiter of “taxpayer friendliness” and the chart below ranks the 10 largest cities in the state based on this measure.

**Table 7.**

| <b>City</b>             | <b>Per Capita Personal Income</b> | <b>Local Tax Burden as a Percent of Income</b> |
|-------------------------|-----------------------------------|------------------------------------------------|
| Carlsbad                | \$29,132                          | 8.43%                                          |
| Hobbs                   | \$27,636                          | 8.46%                                          |
| Roswell                 | \$24,880                          | 9.51%                                          |
| Clovis                  | \$27,115                          | 9.57%                                          |
| Alamogordo              | \$21,448                          | 10.68%                                         |
| Rio Rancho (Sandoval)   | \$30,884                          | 11.70%                                         |
| Santa Fe                | \$37,934                          | 11.98%                                         |
| Farmington              | \$24,260                          | 12.29%                                         |
| Rio Rancho (Bernalillo) | \$30,884                          | 12.72%                                         |
| Las Cruces              | \$23,070                          | 12.95%                                         |
| Albuquerque             | \$30,884                          | 14.17%                                         |

When accounted for in this way, the results above might surprise people. Carlsbad, which fares well throughout the rankings and has some of the lowest gross receipts tax rates and property tax rates in the state, ultimately wins, having the only sub-10 percent combined GRT and property tax burden in New Mexico. Hobbs also fares quite well and is, statistically-speaking, tied with Carlsbad.

Perhaps most surprising was the poor showing by Las Cruces. Residents of the city have relatively low income levels (second-lowest in the state), yet they face a relatively high gross receipts tax rates and property taxes that are in the middle of the pack. Worse, earlier this year Las Cruces voters decided to tack on another 0.25 percent onto their gross receipts tax rate in order to pay for the Spaceport. This will increase the city’s tax rate to 7.375 percent, placing it above Alamogordo and giving it the third-highest rate among New Mexico’s major cities.

Economic growth may be on the way for Las Cruces due to the relocation of thousands of troops to Fort Bliss under the military’s base realignment, but if the city’s tax burden is not reduced, the long term economic prospects of Las Cruces are troubling.<sup>15</sup>

<sup>15</sup> Dr. Chris Erickson, “Las Cruces is Sizzling: How Come and Can it Continue?” *New Mexico Business Outlook*, February 2007, <http://bbrs.nmsu.edu/nmbizoutlook/showarticle.php?articleID=50345>.

## Conclusion

Economists know that taxes matter in directing economic activity. Ultimately, while these findings may not unleash a flood of migrants to Carlsbad, Hobbs and other, relatively tax friendly communities throughout the state, New Mexico's cities do compete with each other for residents and economic activity. Over time, cities that maintain low taxes and avoid burdensome taxes and regulations (Santa Fe's toilet restrictions<sup>16</sup> and Albuquerque's impact fees being only two examples not covered in this paper<sup>17</sup>) will see their populations achieve greater wealth and greater popularity as relocation destinations.

More importantly, while all of the information listed above is available in public documents, no one has taken the time to put it together in a comprehensive manner until now. Taxpayers may still choose to live in high-tax cities, but having this information available in one place for the first time will give those looking to relocate to the Land of Enchantment an additional tool in making their decision. Our hope is that this will put added pressure on public officials to restrain taxes and spending for the benefit of all New Mexicans.

---

<sup>16</sup> Douglas Jehl, "Parched Santa Fe Makes Rare Demand on Builders," *The New York Times* November 3, 2002, <http://query.nytimes.com/gst/fullpage.html?res=9D01E2D8173EF930A35752C1A9649C8B63>.

<sup>17</sup> Sean O'Hara, "Impact Fees Loom for Developers Seeking Building Permits," *New Mexico Business Weekly*, June 16, 2005, <http://www.bizjournals.com/albuquerque/stories/2005/06/13/daily18.html>.